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IN THE
Supreme Court of the United States

OCTOBER TERM, 1964

No. 20

WALTER C. BRULOTTE and CECILIA BRULOTTE, his wife
and
RAYMOND CHARVET and BLANCHE CHARVET, his wife,
Petitioners

v.

THYS COMPANY, *Respondent*

REPLY BRIEF FOR PETITIONERS

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I. SUMMARY OF ARGUMENT

Respondent is "the owner and holder of 19 patents on hop picking machines and improvements thereof" (R. Br. 2), at least 12 of which are licensed to Petitioners by the contracts in suit. In consideration for these statutory patent monopolies, Respondent *contracted* with the people of the United States, to *dedicate* the inventions to the public when the patents expire.

The issue in this case is whether Respondent, by subsequent, private contracts requiring the post-expiration payment of royalties, may compromise its prior and primary bargain with the public.

To allow recovery on these post-expiration royalty agreements "would be at war with virtually every policy consideration in this area of the law."¹ Without deviation, this Court has construed both the Constitution and the applicable statutes to *guarantee* the *unqualified* paramount public right in the subject matter of expired patents. *No private contract* can compromise that fundamental guarantee.

The contracts in suit, which attempt to extend the patent monopolies to the *very* unpatented subject matter dedicated to the public by their expiration, violate the public policy of both the patent² and the antitrust laws.³

¹ *Aro Mfg. Co. v. Convertible Top Co.*, 377 U.S. 476, 84 S. Ct. 1526, 12 L. Ed. 2d 457, 482 (1964).

² Constitution, Art. I, Sec. 8; 35 U.S.C. § 154; *Pennock v. Dialogue*, 2 Pet. 1, 7 L. Ed. 327 (1829); *Singer Mfg. Co. v. June Mfg. Co.*, 163 U.S. 169, 16 S. Ct. 1002, 41 L. Ed. 118 (1896); *Motion Picture Patents Co. v. Universal Film Mfg. Co.*, 243 U.S. 502, 37 S. Ct. 416, 61 L. Ed. 871 (1917); *Kellogg Co. v. National Biscuit Co.*, 305 U.S. 111, 59 S. Ct. 109, 83 L. Ed. 73 (1938); *Scott Paper Co. v. Marcalus Mfg. Co.*, 326 U.S. 249, 66 S. Ct. 101, 90 L. Ed. 47 (1945); *Sears, Roebuck & Co. v. Stiffel Co.*, 376 U.S. 225, 84 S. Ct. 784, 11 L. Ed. 2d 661 (1964); and *Compco Corp. v. Day-Brite Lighting*, 376 U.S. 234, 84 S. Ct. 779, 11 L. Ed. 2d 669 (1964).

³ *Mercoid Corp. v. Mid-Continent Invest. Co.*, 320 U.S. 661, 64 S. Ct. 268, 88 L. Ed. 376 (1944); *United States v. Paramount Pictures, Inc.*, 334 U.S. 131, 68 S. Ct. 915, 92 L. Ed. 1260 (1948); and *United States v. Loew's, Inc.*, 371 U.S. 38, 83 S. Ct. 97, 9 L. Ed. 2d 11 (1962).

These agreements are illegal *per se*. The collateral facts and circumstances advanced by Respondent and amicus curiae Well Surveys, Inc. in an attempt to legitimize post-expiration royalties on the ground of business expediency are totally inapposite since

" . . . convenience cannot justify an extension of the monopoly of the patent. See, e.g., *Mercoind Corp. v. Mid-Continent Invest. Co.*, 320 U.S. 661, 666, 88 L. ed. 376, 381, 64 S. Ct. 268; *B. B. Chemical Co. v. Ellis*, 314 U.S. 495, 498, 86 L. ed. 367, 370, 62 S. Ct. 406."

II. THE POST-EXPIRATION ROYALTY CONTRACTS VIOLATE THE PUBLIC POLICY OF THE PATENT LAWS

The court below held:

" . . . that parties to a licensing agreement may contract for the payment of royalties beyond the expiration of the patent. . . ." (R. 111)

On the strength of that holding it entered judgment enforcing the post-expiration royalty contracts in suit.

The ruling of the lower court clashes head-on with the fundamental principles on which the patent system is premised.

From the very beginning, it has been recognized that unqualified public dedication of the fully disclosed invention upon expiration of a patent is the *quid pro*

⁴ *Automatic Radio Mfg. Co. v. Hazeltine Research*, 339 U.S. 827, 834, 70 S. Ct. 894, 94 L. Ed. 1312 (1950). Cf. *United States v. Loew's, Inc.*, 371 U.S. 38, 83 S. Ct. 97, 9 L. Ed. 2d 11 (1962).

quo tendered by the patentee in exchange for the grant of the monopoly.⁵

This Court repeatedly has emphasized that a *patentee may not compromise his bargain with the public* by qualifying in *any way* the ultimate *public* dedication on which the statutory grant expressly is conditioned. It is *for this reason* that the right to use the subject matter of an expired patent is "no longer sub-

⁵ To insure that the dedication shall be meaningful, the patent statutes, beginning with the first Patent Act of 1790, have included provisions conditioning the patent grant on full disclosure of the invention in the patent specification.

In *Universal Oil Products Co. v. Globe Oil & Refining Co.*, 322 U.S. 471, 484, 64 S. Ct. 1110, 88 L. Ed. 1339 (1944), this Court enunciated the principles underlying such statutes as follows:

"As a reward for inventions and to encourage their disclosure, the United States offers a seventeen-year monopoly to an inventor who refrains from keeping his invention a trade secret. *But the quid pro quo is disclosure of a process or device in sufficient detail to enable one skilled in the art to practice the invention once the period of the monopoly has expired*; and the same precision of disclosure is likewise essential to warn the industry concerned of the precise scope of the monopoly asserted. *Béné v. Jeantet*, 129 U.S. 683, 685, 686, 32 L. ed 803, 804, 9 S. Ct. 428; *General Electric Co. v. Wabash Appliance Corp.*, 304 U.S. 364, 368, 32 L. ed 1402, 1405, 58 S. Ct. 899."

To the same effect are the decisions in *Brooks v. Fiske*, 15 How. 212, 14 L. Ed. 665 (1853), and *Permutit Co. v. Graver Corp.*, 284 U.S. 52, 52 S. Ct. 53, 76 L. Ed. 163 (1931).

35 U.S.C. § 112, the present-day embodiment of such statutes, provides:

"The specification shall contain a written description of the invention, and of the manner and process of making and using it, in such full, clear, concise, and exact terms as to enable any person skilled in the art to which it pertains, or with which it is most nearly connected, to make and use the same, and shall set forth the best mode contemplated by the inventor of carrying out his invention."

Unless otherwise stated, all emphasis in this brief is supplied.

ject to private barter, sale, or waiver" on any basis, "voluntary" or otherwise. *Scott Paper Co. v. Marcalus Mfg. Co.*, 326 U.S. 249, 257, 66 S. Ct. 101, 90 L. Ed. 47 (1945).

In its first patent decision in 1829, this Court recognized that the prohibition against extension of the monopoly of an expired patent in derogation of the public right in the dedicated invention is constitutionally mandated. In *Pennock v. Dialogue*, 2 Pet. 1, 7 L. Ed. 327 (1829), the Court held:

" . . . The Constitution of the United States has declared that Congress shall have power 'to promote the progress of science and useful arts by securing for *limited times*, to authors and inventors, the 'exclusive right to their respective writings and discoveries.' *It contemplates, therefore, that this exclusive right shall exist but for a limited period*, and that the period shall be subject to the discretion of Congress"

* * * * *

" . . . While one great object was, by holding out a reasonable reward to inventors, and giving them an exclusive right to their inventions for a limited period, to stimulate the efforts of genius; the main object was 'to promote the progress of science and useful arts;' and *this could be done best by giving the public at large a right to make, construct, use, and vend the thing invented, at as early a period as possible.* . . . " (2 Pet. 1, 16-19, 7 L. Ed. 327).^a

^aThe constitutional requirement that patents be granted for *limited times* has consistently been recognized and enforced by this Court. See in addition to the cases cited *supra*, notes 1 and 2, page 2, *Kendall v. Windsor*, 21 How. 322, 16 L. Ed. 165 (1859); *United States v. American Bell Telephone Co.*, 167 U.S. 224, 17 S. Ct. 809, 42 L. Ed. 144 (1897); *Woodbridge v. United States*, 263 U.S. 50, 68 L. Ed. 159 (1923); *Special Equipment Co. v. Coe*, 324 U.S. 370, 65 S. Ct. 741, 89 L. Ed. 1006 (1945); *Great A & P Tea Co. v. Supermarket Equipment Corp.*, 340 U.S. 147, 71 S. Ct. 127, 95 L. Ed. 162 (1950).

The constitutional mandate that patents shall be granted for "limited times" was applied early to foreclose the extension of an expired patent monopoly by a second patent for the same invention—a circumstance later characterized as "double patenting." As early as 1894, this Court thought it a "well settled rule" that in the case of two patents covering the same invention

" . . . [T]he later must be declared void . . . two valid patents for the same invention cannot be granted either to the same or to a different party. . . ." *Miller v. Eagle Mfg. Co.*, 151 U.S. 186, 197, 14 S. Ct. 310, 38 L. Ed. 121 (1894).

After reviewing its prior decisions establishing this "well settled rule",⁷ the opinion in *Miller* states:

"In *Odiorne v. Amesbury Nail Factory*, 2 Mason, 28, the reason for the rule since established by the above cited cases was stated to be that the power to create a monopoly is exhausted by the first patent; and for the further reason that a new and later patent for the same invention would operate to extend or prolong the monopoly beyond the period allowed by law." (151 U.S. 186, 198)

In the 1819 Massachusetts decision in *Odiorne*, cited in *Miller* as definitive of the reason for the rule against "double patenting," the court held:

" . . . It cannot be, that a patentee can have in use at the same time two valid patents for the same invention; and if he can successively take out at

⁷ *Suffolk Mfg. Co. v. Hayden*, 3 Wall. 315, 18 L. Ed. 76 (1866); *James v. Campbell*, 104 U.S. 356, 26 L. Ed. 786 (1882); *Mosler Safe & Lock Co. v. Mosler, Bahmann & Co.*, 127 U.S. 354, 8 S. Ct. 1148, 32 L. Ed. 182 (1888); *McCreary v. Pennsylvania Canal Co.*, 141 U.S. 459, 12 S. Ct. 40, 35 L. Ed. 817 (1891); *Underwood v. Gerber*, 149 U.S. 224, 13 S. Ct. 854, 37 L. Ed. 710 (1893).

different times new patents for the same invention, he may perpetuate his exclusive right during a century, whereas the patent act confines this right to fourteen years from the date of the first patent. *If this proceeding could obtain countenance, it would completely destroy the whole consideration derived by the public for the grant of the patent, viz. the right to use the invention at the expiration of the term specified in the original grant. . . .*" 18 Fed. Cas. 578, 579 (No. 10, 430) (C.C. D. Mass. 1819).⁸

In 1896 in *Singer Mfg. Co. v. June Mfg. Co.*, 163 U.S. 169, 16 S. Ct. 1002, 41 L. Ed. 118, effort was made to perpetuate an expired patent monopoly by asserting a proprietary right in the generic name "Singer" by which the sewing machines subject to the patent had become known to the public. This Court, in ruling against the patentee, again emphasized the paramount public right to the unrestricted free use of the once-patented invention and *the disability of the patentee to compromise his dedication of it*. The Court said at 185-86:

"It is self-evident that on the expiration of a patent the monopoly created by it ceases to exist, and the right to make the thing formerly covered by the patent becomes public property. It is upon this condition that the patent is granted. It follows, as a matter of course, that on the termination of the patent there passes to the public the right to make the machine in the form in which it was constructed during the patent. . . . It equally follows from the cessation of the monopoly and the falling of the patented device into the domain of things public, that along with

⁸ For the same reason reissue patents expire on the same date as the original grant. 35 U.S.C. § 251.

the public ownership of the device there must also necessarily pass to the public the generic designation of the thing which has arisen during the monopoly, in consequence of the designation having been acquiesced in by the owner, either tacitly, by accepting the benefits of the monopoly, or expressly, by his having so connected the name with the machine as to lend countenance to the resulting dedication. To say otherwise would be to hold that, although the public had acquired the device covered by the patent, yet the owner of the patent or the manufacturer of the patented thing had retained the designated name which was essentially necessary to vest the public with the full enjoyment of that which had become theirs by the disappearance of the monopoly. *In other words, that the patentee or manufacturer could take the benefit and advantage of the patent upon the condition that at its termination the monopoly should cease, and yet when the end was reached disregard the public dedication and practically perpetuate indefinitely an exclusive right."*

Forty-two years later, in 1938, *Singer* was followed, reaffirmed and quoted verbatim on substantially the same issue in *Kellogg Co. v. National Biscuit Co.*, 305 U.S. 111, 59 S. Ct. 109, 83 L. Ed. 73 (1938).

Meanwhile, in 1917, the first misuse decision was rendered in *Motion Picture Patents Co. v. Universal Film Mfg. Co.*, 243 U.S. 502, 37 S. Ct. 416, 61 L. Ed. 871 (1917). That case involved a notice attached to a patented motion picture projector. The notice provided that the patented projector might be used "only with moving picture films containing the invention of reissued patent No. 12,192. . . ." Noting that the reissue patent had expired, this Court held:

"Such a restriction is invalid because such a film is obviously not any part of the invention of

the patent in suit; because it is an attempt, without statutory warrant, to continue the patent monopoly in this particular character of film after it has expired. . . ." (243 U.S. 502, 518).

In 1945 the same fundamental principles were applied in *Scott Paper Co. v. Marcalus Mfg. Co.*, 326 U.S. 249, 66 S. Ct. 101, 90 L. Ed. 47, to hold that the assignor of a patent is not estopped by virtue of his assignment to defend a suit for infringement of the assigned patent on the ground that the alleged infringing device is that of a prior art expired patent. Citing the prior decisions in *Kellogg* and *Singer*, *supra*, this Court in *Scott Paper Co.* said:

"Revised Statutes, §§ 4886, 4884 as amended, 35 USCA §§ 31, 40, 9 FCA title 35, §§ 31, 40, provide for the grant of a patent for a *term of seventeen years* to any person who has invented a 'new and useful art, machine, manufacture, or composition of matter.' The grant is conditioned upon the filing of an application in the patent office describing the invention and the manner of making and using it. Rev Stat § 4888 as amended, 35 USCA § 33, 9 FCA title 35, § 33. . . ."

"The enactment of these provisions is the mode by which Congress has chosen to carry into effect the policy sanctioned by the Constitution, Article I, § 8, cl. 8: 'To promote the Progress of Science and useful Arts, by securing for *limited Times* to . . . Inventors the exclusive Right to their . . . Discoveries.' " (326 U.S. 249, 254-255)."

From these premises, the Court concluded:

" . . . [T]hat the patent laws preclude the patentee of an expired patent and all others including petitioner from recapturing any part of

⁹ See note 5, *supra*, page 4, and the cases cited.

the former patent monopoly; for those laws dedicate to all the public the ideas and inventions embodied in an expired patent. They do not contemplate that anyone *by contract or any form of private arrangement may withhold from the public the use of an invention for which the public has paid by its grant of a monopoly and which has been appropriated to the use of all.* The rights in the invention are then no longer subject to private barter, sale, or waiver." (326 U.S. 249, 256-57).

Scott Paper Co. reached the only possible decision consistent with the public policy of the patent laws and the prior decisions of this Court. That decision rests squarely on the constitutional and statutory obligation of a patentee to publicly dedicate the invention, without reservation, at the expiration of the patent term. Mr. Chief Justice Stone, speaking for the majority in *Scott Paper Co.*, stated:

"The judgment is affirmed for the reason that we find that the application of the doctrine of estoppel so as to foreclose the assignor of a patent from asserting the right to make use of the prior art invention of an expired patent, which anticipates that of the assigned patent, is inconsistent with the patent laws which dedicate to public use the invention of an expired patent." (326 U.S. 249, 257-58).

Scott Paper Co. is not an isolated case subject to criticism for defining a unique rule of law as Respondent implies (R. Br. 36). As this Court so aptly observed in *Katzinger Co. v. Chicago Metallic Mfg. Co.*, 329 U.S. 394, 400-01, 67 S. Ct. 416, 91 L. Ed. 374. (1947):

"In *Scott Paper Co. v. Marcalus Mfg. Co.*, 326 U.S. 249, 90 L. ed. 47, 66 S. Ct. 101, . . . the Court was but stating an often expressed policy that 'It is the public interest which is dominant in the patent system,' *Mercoid Corp. v. Mid-Continent*

Invest. Co., 320 US 661, 665, 88 L ed 376, 380, 64 S Ct 268. . . .¹⁰

This same basic principle of public dedication of the invention of an expired patent was again enunciated in the 1964 decisions in *Sears, Roebuck & Co. v. Stiffel Co.*, 376 U.S. 225, 84 S. Ct. 784, 11 L. Ed. 2d 661 (1964), and *Compco Corp. v. Day-Brite Lighting*, 376 U.S. 234, 84 S. Ct. 779, 11 L. Ed. 2d 669 (1964). These cases hold that the paramount public right in the subject matter of an expired patent forecloses extension of the defunct monopolies under the guise of the state law of unfair competition. Again it was emphasized that it is the "free exercise" of the right to use the subject matter of the expired monopoly in "which the consuming public is deeply interested"—and which is indeed guaranteed by the federal supremacy of the patent laws.

Sears and *Compco* enunciate the primary public right to *all* subject matter in the public domain, as guaranteed by the federal patent laws. The doctrine of these decisions forecloses with equal firmness col-

¹⁰ The decision in *Scott Paper Co.* was but a specific application of the general rule that neither private contract nor implied estoppel can override congressional policy. In *Katzinger*, this same principle was applied to invalidate a provision of a royalty contract and thus permit a challenge to the validity of the licensed patents which were said to justify a price-fixing arrangement otherwise in violation of congressional policy as expressed in the antitrust laws. The Court said at 402:

" . . . Finally, Metallie's *specific contract* not to challenge the validity of Katzinger's patent can *no more override congressional policy than can an implied estoppel*. See *Scott Paper Co. v. Marcalus Mfg. Co.* *supra* (326 US at 257, 90 L ed 52, 66 S Ct 101), and cases cited."

See also the discussion of the antitrust violation inherent in the contracts in suit. Sec. III, *infra*, page 14.

lection of post-expiration royalties for the alleged right to use *any* "unpatentable article"—including, of course, the *very* subject matter of a publicly dedicated invention.

While time payment arrangements for articles of commerce in the public domain may be unobjectionable, *a patent owner may not extend the statutory monopoly by any form of post-expiration royalty contracts.*"

"Thus the "Brief for the United States As Amicus Curiae" observes that "if the parties had agreed (1) that a fair price *for the machine* was \$8,500, and (2) that such amount should be paid over a 17-year period at an annual rate of \$500, there would have been no problem." (Br. U.S. Am. Cur. p. 14). The same brief, however, accurately points out that the contracts in suit involve no such time payment plan "for the machine." Rather the arrangements were such that *royalties*, including the \$500.00 minimum for all of the patents packaged in the license which the contracts provide that Petitioners "must secure," continued at an undiminished rate long after all of the needed patents had expired. As the brief for the United States aptly states:

"... By thus being required to pay *Thys royalties* based on their use of the patented machine after the patents had expired, the petitioners were being required to pay for the right to practice an invention that had passed into the public domain. ... [T]he patent laws require that, upon the expiration of the term of the patent, the invention must be dedicated to the public." (Br. U.S. Am. Cur. 15).

Compare the argument at page 10 of the brief of Well Surveys, Inc., as *amicus curiae* that "there is no difference in principle, so far as payment of royalties is concerned, among articles covered by expired patents, articles covered by invalid patents, and articles which were never patented, *because all are equally in the public domain.*" (Emphasis by *amicus curiae*) *Amicus curiae* is correct that the principle here controlling guarantees to the public the unfettered use of all "unpatentable" subject matter. Indeed, it is that very principle which "*equally*" condemns all private contracts to pay patent royalties for the right to use any "unpatented" article.

The public policy of the antitrust laws speaks with at least equal authority to foreclose contractual extensions of the expired patents to the very subject matter of the dedicated inventions. See Sec. III, *infra*, page 14.

Nor may post-expiration royalty arrangements be condoned if "voluntary" as Respondent and *amicus curiae*, Well Surveys, Inc., insist.¹² The objectionable extension of the expired monopoly occurs *equally* regardless of whether the post-expiration royalty arrangement by which it is accomplished is "voluntary" or "coerced".

The element of coercion is totally immaterial to the conflict with the public policy of the patent laws inherent in any license which includes in the "royalty base" "operations covered by an expired patent." With respect to the subject matter of his expired patent, the patentee is *not a part of the general public, but is apart from the general public*. After expiration of his monopoly the patentee is powerless to do anything—whether by voluntary agreement or otherwise—which would compromise the public right to the unrestricted free use "*by others*" of the dedicated invention.¹³

¹² Brief of Well Surveys, Inc. as *amicus curiae*, pages 5, 7, 11, 12, 16, 17. Respondent advances the same argument (R. Br. 11).

¹³ The contention of *amicus curiae*, Well Surveys, Inc. that its post-expiration royalty agreements do not deprive the public "of any rights" (Well Surveys, Inc. *Am. Cur.*, Br. 12, 17) is in the teeth of the ruling of this Court in *Scott Paper Co.*, *supra*, 326 U.S. 249, 250, 66 S. Ct. 101, 90 L. Ed. 47 (1945), that it is the aim of the patent laws that the consuming public "shall receive the benefits of the *unrestricted* exploitation *by others*" of the disclosure of expired patents.

It has been suggested, with apparent error in view of *Sears and Compro*, *supra*, that the rule in *Scott Paper Co.* is inapplicable to overcome an estoppel to challenge validity on the basis of prior art other than an expired patent.

Such a distinction was expressed in *Hall Laboratories v. National Aluminate Corp.*, 224 F. 2d 303 (3d Cir. 1955), a suit for the collection of royalties under a license agreement made in settlement of earlier infringement litigation between the same parties. The licensee sought to avoid the royalties by challenging the validity of the patent under the authority of *Scott Paper Co.* on the basis

These fundamental principles *invalidate on their face* the post-expiration royalty contracts by which Respondent and *amicus curiae*, Wells Survey, Inc., seek to disregard the public dedication and perpetuate their expired patent monopolies.

III. THE POST-EXPIRATION ROYALTY CONTRACTS VIOLATE THE PUBLIC POLICY OF THE ANTITRUST LAWS

Respondent's *original* sales of portable machines commenced in 1941 and continued "during World War II when hand pickers were not available" (R. Br. 3) until 1947 when "the competition of stationary machines" became "terrific" (R. Br. 2). During this time period, Respondent was the *sole* domestic source of hop-picking machines of any type.¹⁴

of prior art relied on, but not adjudicated, in the infringement case. The court held the licensee estopped to contest validity on the teaching of a prior published book, stating at 307:

"The crucial extension which Hall seeks to make is that the doctrine of the Scott Paper case is not restricted to situations in which invalidity of the patent in issue is premised upon a prior expired patent. In brief, Hall asserts that the laws which dedicate to public use the invention of an expired patent also dedicate the disclosures of prior publications and foreign patents for which timely patent application has not been made. . . ."

"It does not appear, however, that the Supreme Court has as yet relaxed the estoppel doctrine to this extent."

In a later portion of the same opinion, remand to the trial court was granted for consideration of the effect on the royalty claim of the expiration of three of the patents relied on in the prior infringement suit. In this regard, the court observed at 308:

"... It is clear that under the Scott Paper case these patents would have had to have been considered had they expired at the time of the filing of the complaint, for that decision presupposes that the parties cannot by any form of agreement contravene the statutory policy which terminates the patent monopoly after the stated interval."

¹⁴ Respondent was admittedly the sole domestic manufacturer of portable hop-picking machines (R. 49). "Hand pickers were not available" (R. Br. 3). Stationary machines did not become competitive until 1947 (R. Br. 2).

Respondent exploited this monopoly position to forestall anticipated competition from machines to which its patents would not extend or in which they might not be used.¹⁵ In carefully-drawn, separate form agreements, "bare title" to the machines "was sold . . . and the right to use" them together with Respondent's patents "was licensed to the purchaser" (R. 108-09). The original purchasers were each obligated "to pay . . . royalties for the use of [the] . . . machine for a period which was to end 17 years after the date the machine was first sold . . ." (R. 107). The royalties were to be paid at the rate of \$5.00 "per two hundred pounds of hops harvested with the machines and in any event a minimum royalty of \$500.00 per year was to be paid for the use of each machine."¹⁶ (R. 107).

Each contract expressly provided that the royalties should continue at an undiminished rate "irrespective of the date of expiration of any of the Letters Patent" licensed.¹⁷ As the court below held, the contracts contained an "absolute obligation to pay royalties . . . regardless of whether hops are harvested" for the full 17-year term. The purchasers had no right to cancel. (R. 114).

¹⁵ At least some of the licensed patents were also useful in the stationary machines (R. 39, 42).

¹⁶ The royalties were, at some unspecified later time, reduced to \$3.33 $\frac{1}{3}$ per two hundred pounds of hops harvested without, however, reduction of the minimum royalty.

¹⁷ See Par. 7 of the contracts in suit. (R. 74; R. 78)

These circumstances belie Respondent's arguments that the post-expiration royalty contracts reflect Respondent's "good Samaritan" (R. Br. 11; 2, 3, 9) concern for hop farmers which finds record support solely in the self-serving answers of Respondent's president to the leading questions of its counsel (R. 65, 66). Obviously, these form agreements, as originally drawn at the inception of Respondent's activities in the early 1940's, were insisted upon quite without regard to the welfare of the machine users.

The anticompetitive features of the original two-party agreements were perpetuated by a provision that the original purchasers "shall not assign this agreement nor any interest therein and shall not permit said machine(s) to become subject to any lien or encumbrance . . . without prior consent" of Respondent (R. 72-80). Purchasers of used machines were required to accept the same terms and conditions imposed by the original two-party agreements. The result was a plurality of three-party or "transfer" agreements consummated between Respondent, the prior owner and the "new owners" of *each* of the machines. The original "two-party" form agreements were "virtually the same as" Petitioner's "three-party" or "transfer" contracts here in suit. (R. 55; R. 44-45).¹⁸

There were "something in excess of 200 such contracts or perhaps more because the machines . . . changed hands" (R. 50). By these form agreements Respondent has effectively restrained commerce in portable hop picking machines since their initial manufacture in the early 1940's.¹⁹

¹⁸ The court below said:

"It is further agreed that the form contracts used . . . were uniform with other contracts used whether they were three-party contracts or two-party contracts". (R. 83)

¹⁹ This anticompetitive result is in part attributable to Respondent's attempt by the contracts in suit to circumvent the fundamental rule:

" . . . that sale of a patented article by the patentee or under his authority carries with it an 'implied license to use.' *Adams v. Burke*, 17 Wall 453; 456, 21 L. ed 700, 703; *United States v. Univis Lens Co.* 316 US 241, 249, 250-251, 86 L. ed 1408, 1417, 1418, 62 S. Ct 1088." *Aro Mfg. Co. v. Convertible Top Co.*, 377 U.S. 476, 484, 84 S. Ct. 1526, 12 L. Ed. 2d 457 (1964)

The court below distinguished "numerous authorities . . . which held that the sale of a patented article by one holding the patent

Respondent, of course, knew when all of these contracts were negotiated that "only seven of the twelve . . . patents listed by number . . . were incorporated into the . . . machines" (R. 95). Moreover, as the trial court pointed out, the licensed patents which "were not needed in the use of the machines . . . were mere surplusage . . . and there is no evidence . . . that any special value was placed upon any of the patents which were not incorporated in the machines." (R. 87).²⁰ Respondent also knew that all of the patents whose inventions were incorporated into the machines would expire during the contract term.²¹ It was for

. . . puts the patented article beyond the reach of the monopoly conferred by the patent" (R. 108) on the basis of an erroneous construction of the record. It found that "title . . . was sold by the manufacturer" (Lindemann Bros.) and "the right to use . . . was licensed . . . by the patent holder" (Respondent) (R. 108-109). In point of fact, Respondent's president testified that machines were built for him by Lindemann Bros. under contract (R. 39) and that Respondent "deemed" itself "to be selling the title to the machine" as well as licensing the patents (R. 42).

Respondent's only attempted justification for this arrangement aside from alleged convenience is that it was designed "to avoid any possible danger of future claims of patent infringement on the part of anyone" (R. Br. 5). The record shows that the only patents which might present infringement problems to the purchasers of Respondent's machines were owned by Respondent itself (R. 43, 44). Neither Petitioners nor any other machine purchaser needed protection from any "future claims of patent infringement" lodged by *Respondent* in view of the "implied license to use" consequent from the "fundamental" rule emphasized in *Aro II, supra*.

²⁰ Respondent's president testified that ". . . it is true that we have given them licenses to more patents than actually we believe that they need as being used in the portable machines" (R. 64).

²¹ The trial court found as a fact that "all" of the used patents "expired on or before 1957" (R. 95)—at least one year before the termination of *any* contract consummated by Respondent. Moreover, as it turned out, some of the patents were invalidated well prior to their expiration. See Note 9, page 8, Petitioners' opening brief.

this reason that Respondent was careful to provide in its contracts that the royalty rate should continue *undiminished* for the entire term, "irrespective of the date of expiration of any patent."

The anticompetitive consequences of these agreements culminated in the present litigation by which Respondent primarily seeks to recover the minimum royalties due under its agreements. Indeed, "the Charvets did not use their machine after 1952" (R. 108). These facts which Respondent wishes "particularly to repeat and emphasize" (R. Br. 47) show conclusively that the contracts in suit restrain competition by extending the monopolies of the expired, invalidated and surplus patents to admittedly obsolete machines.

This Court, by an undeviating line of precedent, has made it clear that any attempt to bring unpatented goods within the protection of a patent violates the antitrust laws. After summarizing such decisions, this Court in *United States v. Loew's Inc.*, *supra*, 371 U.S. 38, 46, 83 S. Ct. 97, 9 L. Ed. 2d 11 (1962), stated the rule *applicable in antitrust cases* as follows:

" . . . These cases reflect a hostility to use of the statutorily granted patent monopoly to extend the patentee's economic control to unpatented products. The patentee is protected as to his invention, but may not use his patent rights to exact tribute for other articles."

Moreover, " . . . the method by which the monopoly is sought to be extended is immaterial. *United States v. Univis Lens Co.*, *supra* (316 U.S. pp. 251, 252, 86 L. ed 1418, 1419, 62 S. Ct 1088). . . ." *Mercoid Corp. v. Mid-Continent Invest. Co.*, *supra*, 320 U.S. 661, 666, 64 S. Ct. 268, 88 L. Ed. 376 (1944).

The fact that Respondent successfully represented in "both courts below" that "there was here *no coercion nor unlawful mandatory package licensing*" (R. Br. 35—emphasis by Respondent) is, therefore, quite irrelevant. The illegal extension of the statutory monopolies to unpatented articles by the post-expiration royalty contracts here in issue is in no way dependent upon such factors.

The antitrust violation in this case is a legal consequence of the fact that upon expiration of a patent, the statutory monopoly "ceases to exist." *Singer Mfg. Co. v. June Mfg. Co.*, *supra*, 163 U.S. 169, 16 S. Ct. 1002, 41 L. Ed. 118 (1896); *Kellogg Co. v. National Biscuit Co.*, *supra*, 305 U.S. 111, 59 S. Ct. 109, 83 L. Ed. 73 (1938).²²

No private party "by contract or any other form of private arrangement" can resurrect that monopoly in derogation of the paramount public interest in the dedicated subject matter of the expired patents. *Singer Mfg. Co. v. June Mfg. Co.*, *supra*, 163 U.S. 169, 16 S. Ct. 1002, 41 L. Ed. 118 (1896); *Kellogg Co. v. National Biscuit Co.*, *supra*, 305 U.S. 111, 59 S. Ct. 109,

²² Compare the statement of the Court in *Katzinger v. Chicago Metallic Mfg. Co.*, 329 U.S. 394, 401-02, 67 S. Ct. 416, 91 L. Ed. 374 (1947),

"Nor does the fact, if it be a fact, that Metallic itself suggested the price-fixing provision, bar Metallic's challenge to the patent's validity. For the contract was still illegal, whoever suggested it, so that there is no less reason for leaving the way open to challenge the patent as a service to the public interest than if Katzinger had suggested price-fixing."

In the present case because the patent monopoly has ceased to exist and the parties are powerless to further extend it, the contracts are illegal *per se*. Therefore as in *Katzinger*, it is immaterial who suggested the contracts or whether it is "voluntary" or "coerced."

83 L. Ed. 73 (1938); *Scott Paper Co. v. Marcalus Mfg. Co.*, *supra*, 326 U.S. 249, 66 S. Ct. 101, 90 L. Ed. 47 (1945).

The patent clause of the Constitution has been subverted and the public imposed upon by the more than 200 post-expiration royalty arrangements of which Petitioners' contracts are typical.

These agreements, in express derogation of Respondent's commitment to publicly dedicate the subject matter of its patents upon expiration, are unreasonable *per se*.

The antitrust violation implicit in these agreements is aggravated because *only* the inventions of the expired patents were in fact used in the Petitioners' machines. Particularly in these circumstances, the post-expiration royalties imposed by these contracts cannot be justified under the guise of consideration for the right to use the unexpired "surplus" patents as Respondent now belatedly seems to suggest (R. Br. 5, 6, 8, 9).²³

This *nunc pro tunc* attempt to redistribute the royalty base from the "needed" to the "surplus" patents, as the former expired or were invalidated, runs afoul of the fundamental principles repeatedly emphasized by this Court that each patent must stand on its own footing in the market place.

In *United States v. Paramount Pictures, Inc.*, *supra*, 334 U.S. 131, 68 S. Ct. 915, 92 L. Ed. 1260

²³ Indeed, such a contention conflicts with the express finding of the court below that the parties agreed "that the value of the right to use the patents embodied in the machines was at least \$500 per year, for the remaining years of the royalty period." (R. 112)

(1948), reaffirmed verbatim in *United States v. Loew's, Inc.*, *supra*, 371 U.S. 38, 83 S. Ct. 97, 9 L. Ed. 2d 11 (1962), this Court said, at 158, 334 U.S.:

" . . . The copyright law, like the patent statutes, makes reward to the owner a secondary consideration. In *Fox Film Corp. v. Doyal*, 286 U.S. 123, 127, 76 L. ed 1010, 1014, 52 S. Ct 546, Chief Justice Hughes spoke as follows respecting the copyright monopoly granted by Congress, 'The sole interest of the United States and the primary object in conferring the monopoly lie in the general benefits derived by the public from the labors of authors.' It is said that reward to the author or artist serves to induce release to the public of the products of his creative genius. But the reward does not serve its public purpose if it is not related to the quality of the copyright. Where a high quality film greatly desired is licensed only if an inferior one is taken, the latter borrows quality from the former and strengthens its monopoly by drawing on the other. The practice tends to equalize rather than differentiate the reward for the individual copyrights. Even where all the films included in the package are of equal quality, the requirement that all be taken if one is desired increases the market for some. Each stands not on its own footing but in whole or in part on the appeal which another film may have. As the District Court said, the result is to add to the monopoly of the copyright in violation of the principle of the patent cases involving tying clauses."

Since ". . . the method by which the monopoly is sought to be extended is immaterial. . . ." *Mercoind Corp. v. Mid-Continent Invest. Co.*, *supra*, these prin-

ciples apply equally to foreclose extension of the statutory monopolies by the post-expiration contracts in suit.²⁴

The "unexpired," "surplus" patents on which "no special value" was placed necessarily formed *no* material part of the consideration for the royalty agreed upon when the contracts here in issue were consummated in 1948 and 1951.²⁵

Respondent's belated attempt now to justify, on the basis of these "surplus" patents of "no special value," the continuance of an undiminished royalty rate after expiration of the "needed" patents compels the conclusion that the former "surplus" patents have indeed "borrowed quality" from the latter "needed" patents.

²⁴ Respondent (R. Br. 35) is incorrect in its suggestion that Petitioners improperly raise the "mandatory" package licensing issue, to which the third question on the certiorari petition was directed. *Paramount* and *Loew's* are cited by Petitioners as enunciating the fundamental principles which foreclose any extension of any of the monopolies by package licensing. In this case the extension arises by reason of the post-expiration royalty provisions of the contracts and quite apart from any element of coercion.

²⁵ It is questionable whether any of the patents was the *real* inducement to the hop farmers to accept either the original contracts or the "transfer" agreements. Rather, it appears that all of the patents "borrowed" appeal from the machines which the hop farmers could obtain from no source other than Respondent. The hop farmers had no practical choice but to accept the license agreement on which the "right to use" the machines was expressly conditioned. The opinion of the trial court so recognizes as follows:

"... The plaintiff was merely licensing the right to use a machine and threw in all of the patents it had, regardless of whether they were being used in the machine at the present time or not.

"... [T]he defendants received just what they bargained for, namely, the title to and the right to use a certain hop-picking machine." (R. 87)

By such reasoning, the patents which were of "no special value" at the inception of the agreements are ascribed equal value with the "needed" patents which expired during the license term.

So construed, the agreements in suit tend "to equalize rather than differentiate the reward for the individual" patents. Each of the licensed patents would stand "not on its own footing but in whole or in part on the appeal which another" may have, in derogation of the rule enunciated in *Loew's, supra*, and *Paramount, supra*.

Respondent's contention that an undiminished royalty is justified on the basis of its "unexpired" patents parallels the arguments advanced by Well Surveys as *amicus curiae*. As the *amicus curiae* brief recognizes (p. 5), it has become conventional to offer "package" licenses under a plurality of patents at a fixed royalty rate for a term substantially longer than the life of the basic patents which are the primary "appeal" to the licensee. The royalty rate usually is fixed as a percentage of the licensee's sales in a defined "field." Payment of the fixed royalty throughout the license term and long after the basic patents expire is "justified" by inclusion in the package of some form of "consideration" which may exist in perpetuity. Thus, such "package" "field" licenses normally include as a part of the recited consideration for the royalty payment not only issued patents, but also pending and even prospectively pending patent applications, alleged trademark rights and alleged "know-how."

It is urged that the continuing undiminished royalty payments pursuant to such "package" "field" licenses

"is not paid *for* the right to perform an unpatented operation, or *for* the use of an expired patent. It is paid for the use of the unexpired patents or the right to use them, during the term of the license, and the broad royalty base is employed . . . as a matter of accounting convenience."²⁶

But the royalty continues at an undiminished rate "*during the term of the license*"—including the portion thereof allocable to all of the patents which expire *during the same term*. Illegal post-expiration extension of the expired monopolies is inescapable.

The anticompetitive consequences of the expired patent monopoly extension inherent in such agreements was recognized in *United States v. Timken Roller Bearing Co.*, 83 F. Supp. 284, 313 (N.D. Ohio 1949), *modified on other grounds*, 341 U.S. 593, 71 S. Ct. 971, 95 L. Ed. 1199 (1951):

"We are, here, confronted with a situation wherein a patentee, upon the expiration of its patent monopoly, seeks to justify the perpetuation of the favored position it enjoyed by virtue of the patent through the ingenious theory of furnishing know-how. If lawful restraints and monopolies could be predicated on the ownership of know-how they could last *ad infinitum*. This Court cannot subscribe to such unharassed privilege."

The same principles apply here to foreclose the perpetuation of the monopolies of expired patents under the guise of consideration in the form of pending applications. In *United States v. National Lead Co.*, 63 F. Supp. 513, 524 (S.D. N.Y. 1945), *aff'd*, 332 U.S. 310,

²⁶ Brief of Well Surveys as *amicus curiae*, pages 6, 17.

67 S.Ct. 1634, 91 L.Ed. 2077 (1947), the Court aptly observed that such agreements extend

"... [T]o patents not yet issued and to inventions not yet imagined. They applied to commerce beyond the scope of any patents. They extended to a time beyond the duration of any then-existing patent. *Ethyl Gasoline Corp. v. United States*, 1940, 309 U.S. 436, 456, 60 S. Ct. 618, 84 L. Ed. 852. They embraced acknowledgment of patent validity with respect to patents not yet issued, nor applied for, and concerning inventions not yet conceived."

Moreover, the contracts in suit, like the agreements in the *Well Surveys* case, are not mere package licenses. These agreements are package licenses plus a plurality of other restrictions, including an obligation to pay post-expiration royalties whereby the public is foreclosed from dealing with each monopoly on the basis of its individual merit.²⁷

²⁷ The illegality of the combination of a package license coupled with some other restriction upon the freedom of the licensee to deal with the individual monopolies included in the package has long been recognized. In *Houdry Process Corp. v. Sinclair Refining Co.*, 121 F. Supp. 320 (E.D. Pa. 1954), an action to recover patent royalties, the defendant counterclaimed for violation of the antitrust laws. In denying plaintiff's motion to dismiss the counterclaim, the court, at page 321, stated:

"In support of the first issue, plaintiff points out that patent pooling arrangement alone, *Standard Oil Co. (Indiana) v. United States*, 1931, 283 U.S. 163, 51 S.Ct. 421, 75 L.Ed. 926; *Transparent-Wrap Machine Corp. v. Stokes & Smith Co.*, 1947, 329 U.S. 637, 67 S.Ct. 610, 91 L.Ed. 563; *Cutter Laboratories v. Lyophile-Cryochem Corp.*, 9 Cir. 1949, 179 F.2d 80, or the package method of licensing by itself, *United States v. Paramount Pictures*, 1948, 334 U.S. 131, 159, 68 S.Ct. 915, 92 L.Ed. 1260, are not per se illegal: *It admits that pooling plus 'something else', United States v. Line Material Co.*, 1948,

It was, of course, for these reasons that Respondent and the court below both recognized that post-expiration royalties *must* be legally justified if the contracts in suit are to be enforced.

IV. RESPONDENT'S CONTENTIONS ARE SELF-DEFEATING

In an effort to obscure the inherent illegality of the contracts in suit, Respondent advances a plurality of collateral self-defeating arguments. These contentions, like the attempted justification of the agreements as "voluntary," conflict directly with the law as enunciated by this Court.

A. Respondent insists that by the post-expiration royalty contracts in suit it has not "restricted the use or operation of these machines" and "was not 'withholding from the public' the right to use any expired patents as in *Scott*, and did not 'recapture any part of the former patent monopoly'" (R. Br. 36, 42). To reach this anomalous conclusion, Respondent states that in *Scott Paper Co.*, *supra*, 326 U.S. 249, 66 S. Ct. 101, 90 L. Ed. 47 (1945), this Court's guarantee to the public of the free use of the disclosures of an expired patent did not mean "free from a financial standpoint" and was not "referring to royalties" (R. Br. 36, 42). Such an interpretation is at odds not only with the holding in *Scott Paper Co.*, *supra*, but

333 U.S. 287, 68 S.Ct. 550, 92 L.Ed. 701; *United States v. United States Gypsum Co.*, 1948, 333 U.S. 364, 68 S.Ct. 525, 92 L.Ed. 746, *or package licensing plus some other restriction*, *Automatic Radio Mfg. Co. v. Hazletine Research, Inc.*, 1950, 339 U.S. 827, 70 S.Ct. 894, 94 L.Ed. 1312; *United States v. General Electric Co.*, D.C.N.J. 1949, 82 F. Supp. 753, 859, *are illegal.*"

more importantly with the fundamental principle of dedication on which the decision is premised.²⁸

Every court specifically passing on the point, with the exception of the court below,²⁹ has recognized the obvious fact that a patentee does indeed "recapture a part of the expired monopoly" by the exaction of post-expiration royalties.

In *Ar-Tik Systems, Inc. v. Dairy Queen, Inc.*, 302 F. 2d 496, 510 (3d Cir. 1962), the Court of Appeals for the Third Circuit expressly held:

"After the expiration of Patent No. 2080971 on May 18, 1954, the grant of patent monopoly was spent. *An attempt to extend that monopoly by the exaction of royalties thereafter was un-*

²⁸ Compare the analogous attempt by *amicus curiae* Well Surveys, Inc. to distinguish *Scott Paper Co.* on the ground that "Scott was seeking absolutely to prohibit Marcalus from practicing the disclosure of an expired patent."

Amicus curiae Well Surveys, Inc. is plainly wrong in the construction of *Technograph Printed Circuits v. Bendix Aviation Corp.*, 218 F. Supp. 1 (D. Md. 1963). (Well Surveys Am. Cur. Br. 14) In the *Technograph* case at least the first *post-expiration royalty provision* was as the licensor Technograph insisted and the court recognized, clearly *voluntary*.

Amicus curiae is equally in error in its construction of *American Securit Co. v. Shatterproof Glass Corp.*, 268 F. 2d 769 (3d Cir. 1959) (Well Surveys Am. Cur. Br. 14) in which the court was careful to point out that its finding that post-expiration provisions are illegal was "quite apart" from any issue of coercion.

Carter Products v. Colgate-Palmolive Co., 164 F. Supp. 503 (D. Md. 1958) (Well Surveys Am. Cur. Br. 16) is inapposite. The issue of post-expiration royalties was not raised by the parties nor considered by the court.

²⁹ And the Nebraska court which adopted and applied the reasoning of the court below to different post-expiration royalty contracts in *McLeod v. Crawford*, 176 Neb. 513, 126 N. W. 2d 663 (1964).

enforceable. Such action clearly appears to be interdicted by *Scott Paper Co. v. Marcalus Co.*, *supra*, and *American Securit Co. v. Shatterproof Glass Corp.*, *supra*."

To the same effect is the opinion of the District Court for the District of Maryland in *Technograph Printed Circuits v. Bendix Aviation Corp.*, 218 F. Supp. 1, 48 (D. Md. 1963), *aff'd per curiam*, 327 F.2d 497 (4th Cir. 1964):

"This express requirement that royalty be paid on a patent for five years after its expiration seems to be a clear violation of established principles that the monopoly of a patent cannot be continued, even by agreement, beyond its expiration date."

The fallacy of Respondent's contention is pointedly demonstrated by the finding of the court below that

" . . . There was no reward to the patent owner other than the royalties payable under the contracts." (R. 109)

Obviously, to Respondent, who received no other "reward", the right to collect royalties was by all odds the most important "part" of the monopolies of the licensed patents. With respect to the expired and invalidated patents, it is indeed this most important "part" of the monopoly which Respondent seeks to "recapture."

B. Automatic Radio Mfg. Co. v. Hazeltine Research, *supra*, 339 U.S. 827, 70 S. Ct. 894, 94 L. Ed. 1312 (1950), is of no help to Respondent. That decision rests squarely on the determination that in the royalty

arrangement there in issue, *as it was presented to the Court*, there was

“ . . . no restraint of competition beyond the legitimate grant of the patent. . . . ” (339 U.S. 827, 833)

“ . . . no inherent extension of the monopoly of the patent. . . . ” (339 U.S. 827, 834)

“ . . . no showing that the licensing agreement here or the practices under it were a misuse of patents or contrary to public policy. . . . ” (339 U.S. 827, 836)

It is indeed difficult to believe that the Court, had it intended to overrule its recent decision in *Scott Paper Co.*, *supra*, 326 U.S. 249, 66 S. Ct. 101; 90 L. Ed. 47 (1945), which reaffirmed the fundamental principle of public dedication on which the patent system rests, would not have said so in so many words. Obviously no such result was intended.

The *fact* is that the issue of post-expiration royalty payments was *not* presented to the Court and was not decided by it. Respondent cannot bootstrap *Automatic Radio* into precedent for a proposition which it *did* not decide—and on that basis feasibly contend that the decision compromises the unqualified public right—guaranteed by the Constitution and enforced by every *apposite* decision of this Court—to the *free* use, by the patentee *and others*, of the dedicated subject matter of an expired patent.

Nor did *Automatic Radio*, *supra*, exonerate post-expiration royalties on the ground of business convenience. Rather, the Court expressly held:

“ . . . We are not unmindful that convenience cannot justify an extension of the monopoly of the

patent. See, e.g., *Mercoird Corp. v. Mid-Continent Invest. Co.*, 320 U.S. 661, 666, 88 L. ed. 376, 381, 64 S. Ct. 268; *B. B. Chemical Co. v. Ellis*, 314 U.S. 495, 498, 86 L. ed. 367, 370, 62 S. Ct. 406"

C. Respondent urges as the "key solution of this entire case" an allegedly paramount public policy favoring "freedom of contract." Respondent's contention is that this "dominant" policy preserves the validity of the contracts in suit in their entirety (R. Br. 42-45) or at least estops Petitioners from challenging their legality (R. Br. 12-13). As a second line of defense it is insisted that neither patent misuse (R. Br. 7, 30-32) nor antitrust violation (R. Br. 32-36) is available to Petitioners as a defense to "an action on a license contract to recover royalties." None of these contentions has merit.

Respondent overlooks the fundamental and controlling fact that in all private arrangements involving patents, the dominant contract is the prior "bargain" between the patentee and the people. The good faith of that prior public bargain forecloses compromise by private contract of the dedication on which the initial grant of the patent is conditioned. This indeed is the express teaching of *Scott Paper Co. v. Marcalus Mfg. Co.*, *supra*, 326 U.S. 249, 256-57, 66 S. Ct. 101, 90 L. Ed. 47 (1945), in which the Court said:

" . . . [T]hat the patent laws . . . do not contemplate that anyone by contract or any form of private arrangement may withhold from the public the use of an invention for which the public has paid by its grant of a monopoly. . . ."

None of Respondent's cases relating *generally* to "freedom of contract" involved agreements concern-

ing patents (R. Br. 42-45).³⁰ None of such cases is apposite here.

These same considerations are dispositive of the "estoppel" argument advanced by Respondent (R. Br. 6, 12-13). This identical contention was expressly rejected in *Scott Paper Co.*, *supra*, 326 U.S. 249, 66 S. Ct. 101, 90 L. Ed. 47 (1945). That decision made entirely clear the supremacy of the estoppel operative *in favor of the public* and against a patent owner who has "accepted the benefits" of a patent monopoly, over any *private* estoppel arising out of the law of *private* contract which might compromise the public dedication of the once-patented invention. In disposing of this question in *Scott Paper Co.*, the Chief Justice stated:

" . . . It follows that the patent laws preclude the petitioner assignee from invoking the doctrine of estoppel, as a means of continuing as against respondent, his assignor, the benefit of an expired monopoly, and they preclude the assignor from estopping himself from enjoying rights which it is the policy of the patent laws to free from all restrictions. . . ." (326 U.S. 249, 257)

D. Respondent argues that the misuse doctrine is a "specific application of the unclean hands principle and is therefore applicable only in equity actions." It is urged that for this reason misuse is no defense "to a law action of this nature merely to recover" . . . on a written royalty contract." (R. Br. 7, 30-32).

³⁰ *Twin City Pipe Line Co. v. Harding Glass Co.*, 283 U.S. 353, 51 S.Ct. 476, 75 L.Ed. 1112 (1931); *Steele v. Drummond*, 275 U.S. 199, 48 S.Ct. 53, 72 L.Ed. 238 (1927); *Baltimore & Ohio Southwestern Railway Co. v. Voight*, 176 U.S. 498, 20 S.Ct. 385, 44 L.Ed. 560 (1900); *A. C. Frost & Co. v. Cocur D'Alene Mines Corp.*, 312 U.S. 38, 61 S.Ct. 414, 85 L.Ed. 500 (1941); *Muschany v. United States*, 324 U.S. 49, 65 S. Ct. 442, 89 L.Ed. 744 (1945); *Allgeyer v. Louisiana*, 165 U.S. 578, 17 S.Ct. 427, 41 L.Ed. 832 (1897).

In the first place, this contention is inconsistent with Respondent's allegation in *both* complaints that it had "no plain, speedy or adequate remedy at law" and that "an accounting is necessary" (R. 5—Brulotte complaint; R. 14—Charvet complaint). The trial court, at the behest of Respondent, concluded as a matter of law that "the plaintiff has not come into court herein with unclean hands" (R. 96). The court below concluded, *inter alia*, that "there is no legal or equitable reason why" Petitioners "should not be required to perform their agreement" (R. 112).

Moreover, Respondent's argument that misuse is no defense to an action at law misconceives the "public interest which is dominant in the patent system."

The misuse doctrine is broadly based on the proposition that a patent which has been used in violation of the public policy of the patent laws cannot, *by any means*, be made an implement for exacting tribute from the public.

Not one of the cases cited by Respondent³¹ stands for the proposition that royalties may be collected in

³¹ *Morton Salt Co. v. Suppiger Co.*, 314 U.S. 488, 62 S.Ct. 402, 86 L.Ed. 363 (1942); *Ekins v. Auto Arc-Weld Mfg. Co.*, 150 O. 2d 300, 175 N.E. 2d 221 (1955); *Keystone Driller Co. v. General Excavator Co.*, 290 U.S. 240, 54 S.Ct. 146, 78 L.Ed. 293 (1933); *Precision Instrument Mfg. Co. v. Automotive Maintenance Mach. Co.*, 324 U.S. 806, 65 S.Ct. 993, 89 L.Ed. 1381 (1945); *Mercoird Corp. v. Mid-Continent Invest. Co.*, 320 U.S. 661, 64 S.Ct. 268, 88 L.Ed. 376 (1944); *Koolvent Metal Aurnig Corp. v. Bottom*, 205 F. 2d 209 (8th Cir. 1953); *Marvel Specialty Co. v. Bell Hosiery Mills, Inc.*, 216 F. Supp. 824 (W.D.N.C. 1963); *Ford v. Buffalo Eagle Colliery Co.*, 122 F. 2d 555 (4th Cir. 1941); *Harvey v. Levine*, 204 F. Supp. 947 (E.D. Ohio 1962); *I.C.E. Corp. v. Armco Steel Corp.*, 201 F. Supp. 411 (S.D.N.Y. 1961); *Revlon, Inc. v. Regal Pharmacy, Inc.*, 29 F. R. D. 169 (E.D. Mich. 1961). (R. Br. 31-32)

an action on a contract which is the very implement by which the misuse is accomplished as in the case at bar.

Indeed, the apposite precedent holds expressly to the contrary. As this Court observed in *Mercoïd Corp. v. Mid-Continent Invest. Co.*, 320 U.S. 661, 667, 64 S. Ct. 268, 88 L. Ed. 376 (1944), "the patent . . . [may not] be expanded by contract." Private business may not function "as its own Patent Office" and "impose its own law upon its licensees. It . . . [may not] obtain by contract what letters patent alone may grant."³²

The law, of course, does not permit a patentee to accomplish by indirection, through enforcement of a royalty contract, what he cannot accomplish directly in an infringement action. *Scott Paper Co., supra*, 326 U.S. 249, 66 S.Ct. 101, 90 L.Ed. 47 (1945). In infringement cases the interest of the public is protected against compromise of the policy of the patent laws by staying the hand of the chancellor through application of the equitable principle of unclean hands. The same public interest is protected for the same rea-

³² Compare the *Mercoïd* mandate against private business functioning "as its own Patent Office" with the analogous ruling in *Nears, supra*, 376 U.S. 225, 231, 232, 84 S.Ct. 784, 11 L.Ed. 2d 661 (1964) that

" . . . To allow a State by use of its law of unfair competition to prevent the copying of an article which represents too slight an advance to be patented would be to permit the State to block off from the public something which federal law has said belongs to the public. The result would be that while federal law grants only 14 to 17 years' protection to genuine inventions, see 35 USC §§ 154, 173, States could allow perpetual protection to articles too lacking in novelty to merit any patent at all under federal constitutional standards. This would be too great an encroachment on the federal patent system to be tolerated."

son by refusing royalty recoveries on the basis of illegal licensing agreements. In *Sola Electric Co. v. Jefferson Electric Co.*, 317 U.S. 173, 63 S.Ct. 172, 87 L.Ed. 165 (1942), reaffirmed in *Katzinger, supra*, 329 U.S. 394, 67 S.Ct. 416, 91 L.Ed. 374 (1947), and *MacGregor v. Westinghouse Electric & Mfg. Co.*, 329 U.S. 402, 67 S.Ct. 421, 91 L.Ed. 380 (1947), both of which relied on *Scott Paper, supra*, 326 U.S. 249, 66 S.Ct. 101, 90 L.Ed. 47 (1945), this Court expressly refused to enforce royalty contracts tainted with antitrust violation as are the post-expiration royalty contracts here in issue.

E. Respondent cites *Kelly v. Kosuga*, 358 U.S. 516, 79 S.Ct. 429, 3 L.Ed. 2d 475 (1959) for the proposition that the illegality of the contracts in suit under the Sherman Act is no defense to Respondent's action to collect post-expiration royalties.

Kelly involved a private contract. It did not involve an attempt to enforce a patent after its expiration. In *Kelly* the antitrust defense to the contract action was denied on the ground that the general policy insuring the good faith of private contracts outweighed the benefit to the public which would be consequent from denying all relief to the plaintiff. The decision particularly rested on the finding that the illegal portion of the contract there in suit was severable and constituted "an intelligible economic transaction in itself" (358 U.S. 521).

Quite different factors are controlling in cases involving patent licenses. In such cases the dominant agreement between the patentee and the public dedicates the patented subject matter when the monopoly expires. In such cases the "overriding general pol-

icy", to paraphrase *Kelly*, is that of "preventing the patentee from compromising the public interest by perpetuating the monopoly of his expired patent when he purports to be dedicating it". The paramount public interest in the integrity of the *patent* contract, as compared with the general policy of guaranteeing the good faith of private arrangements, was expressly recognized in *Scott Paper Co. v. Marcalus Mfg. Co.*, *supra*, 326 U.S. 249, 66 S.Ct. 101, 90 L.Ed. 47 (1945); in the following unequivocal language:

" . . . The interest in private good faith is not a universal touchstone which can be made the means of sacrificing a public interest secured by an appropriate exercise of the legislative power. The patent laws preclude us from saying that the patent assignment, which they authorize, operates to estop the assignor from asserting that which the patent laws prescribe, namely, that the invention of an expired patent is dedicated to the public. . . . " (326 U.S. 249, 257)³³

Moreover, *Kelly* expressly held that even in private contract actions *not* involving patents, the defense of antitrust violation is indeed available where enforcement of the agreement "would be to make the courts

³³ This principle was specifically enforced in *Katzinger, supra*, 329 U.S. 394, 67 S.Ct. 416, 91 L.Ed. 374 (1947), to invalidate a provision of a royalty contract in suit which foreclosed the licensee from challenging the validity of the licensed patents which were said to justify a price-fixing arrangement. See note 22, *supra*, page 19.

Indeed, *Automatic Radio Mfg. Co. v. Hazeltine Research, supra*, 339 U.S. 827, 70 S.Ct. 894, 94 L.Ed. 1312 (1950), on which Respondent so strongly relies, clearly recognizes that recovery on a royalty contract would be foreclosed by a proper showing of misuse or antitrust violation.

a party to the carrying out of one of the very restraints forbidden by the Sherman Act." (358 U.S. 516, 520)³⁴

That rule precisely applies to this case. Enforcement of the post-expiration royalty contracts in suit would "make the courts a party" not only "to the carrying out of one of the very restraints forbidden by the Sherman Act," but also to a violation of the public policy of the patent laws. These agreements are condemned *in terms* by Section 1 of the Sherman Act which provides that:

" . . . every contract . . . in restraint of trade . . . is declared to be illegal. . . . " (15 U.S.C. § 1).

As this Court held in *United States v. Loew's, Inc.*, *supra*, 371 U.S. 38, 83 S.Ct. 97, 9 L.Ed. 2d 11 (1962):

" . . . contractual obligations cannot . . . supersede statutory imperatives. . . . " (371 U.S. 38, 51).

There is no basis for "severability" with respect to any of the patents licensed by the contracts in suit. Paragraph 6 of the contracts in suit expressly provides that the license granted is "indivisible". (R. 74, 78). Petitioners' obligation to pay royalties with respect to both the "needed" and the "surplus" patents for the full term of the agreements "constituted an integrated consideration for the license grant. Consequently, when one part of the consideration is unenforceable because in violation of law, its integrated companion must go with it. See *Hazelton v. Shekells*,

³⁴ Compare the analogous rule which renders a patent which has been used in violation of the public policy of the patent laws unenforceable in an infringement action.

202 U.S. 71, 78, 50 L.ed. 939, 941, 26 S.Ct. 567, 6 Ann. Cas. 217." *Katzinger v. Chicago Metallic Mfg. Co.*, 329 U.S. 394, 401, 67 S.Ct. 416, 91 L.Ed. 374 (1947).

Any enforcement of the contracts in suit would conflict squarely with the principles of the misuse doctrine which foreclose enforcement of a misused patent until it be shown "that the improper practice has been abandoned and that the consequences of the misuse of the patent have been dissipated. . . ." *Morton Salt Co. v. Suppiger Corp.*, 314 U.S. 488, 493, 62 S.Ct. 402, 86 L.Ed. 363 (1942). Moreover, even after "purging", recovery cannot be had for acts or infringement which occurred during the misuse and prior to the purge. Far from abandoning "the improper practice", Respondent is seeking to enforce the very license agreements by which the misuse of all of its licensed patents is implemented.

F. Respondent asks for "only prospective application" of a decision invalidating the agreements in suit (R. Br. 11). This plea is based on the erroneous contention that when the agreements in suit were consummated in 1948 and 1951, "such contracts were valid" (R. Br. 6). "All of the cases relied upon by petitioners were decided long afterwards. . . ." (R. Br. 10, 11, 12).

Respondent proceeds on a false premise. Dedication of the invention of an expired patent has been held fundamental to the patent system since its inception. *Pennock v. Dialogue*, *supra*, 2 Pet. 1, 7 L. Ed. 327 (1829). These same principles were reaffirmed in *Singer Mfg. Co. v. June Mfg. Co.*, *supra*, 163 U.S. 169, 16 S.Ct. 1002, 41 L.Ed. 118 (1896) and again in 1938 in *Kellogg Co. v. National Biscuit Co.*, 305 U.S.

111, 59 S.Ct. 109, 83 L.Ed. 73 (1938). *Scott Paper Co. v. Marcalus Mfg. Co.*, *supra*, 326 U.S. 249, 66 S.Ct. 101, 90 L.Ed. 47 (1945) and *Katzinger v. Chicago Metallic Mfg. Co.*, *supra*, 329 U.S. 394, 67 S.Ct. 416, 91 L.Ed. 374 (1947) were both decided *prior* to the consummation of either contract in suit. Respondent saw fit to ignore this controlling precedent and extend its patent monopolies by post-expiration royalty agreements to insure against effective competition from other machines.

CONCLUSION

The post-expiration royalty contracts in suit are illegal and unenforceable. The decision below should be reversed.

Respectfully submitted,

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